

Research Report No.29

SPDC

**SOCIAL IMPACT OF ECONOMIC CRISIS:
LESSONS FOR PAKISTAN**

April 1999

SOCIAL POLICY AND DEVELOPMENT CENTRE

RESEARCH TEAM

TEAM LEADER: Dr. Aisha Ghaus-Pasha

ADVISER: Dr. Hafiz A. Pasha

ECONOMISTS: Sumaira Jaffery
Ms. Rafea Anis

SECRETARIAL ASSISTANCE: Rizwanullah Khan

SOCIAL IMPACT OF ECONOMIC CRISIS: LESSONS FOR PAKISTAN

TABLE OF CONTENTS

| | Page # |
|---|-----------|
| CHAPTER ONE: INTRODUCTION | 1 |
| CHAPTER TWO: COUNTRY PROFILES OF ECONOMIC CRISIS | 2 |
| CHAPTER THREE: SOCIAL IMPACT OF ECONOMIC CRISIS..... | 10 |
| 3.1 Labour Market | 10 |
| 3.1.1 Employment Level | 10 |
| 3.1.2 Sectoral Shifts in Employment..... | 12 |
| 3.1.3 Relative Wages..... | 13 |
| 3.1.4 Public Sector Employment Trends..... | 14 |
| 3.1.5 Women and Labour Market Adjustments..... | 14 |
| 3.1.6 Labour Market Flexibility..... | 16 |
| 3.2 Poverty and Income Distribution..... | 17 |
| 3.2.1 Poverty | 17 |
| 3.2.2 Income Distribution..... | 18 |
| 3.3 Social Service Provision..... | 19 |
| 3.3.1 Education | 19 |
| 3.3.2 Health..... | 20 |
| 3.3.3 Nutrition..... | 21 |
| 3.4 Changes in Quality of Life | 21 |
| 3.4.1 Increase in Abuse and Violence | 21 |
| 3.4.2 Law and Order Situation..... | 21 |
| 3.4.3 Changes in Consumption Patterns..... | 22 |

| | |
|---|---------------|
| CHAPTER FOUR: IMPLICATIONS FOR PAKISTAN: WHAT TO EXPECT? | 24 |
| 4.1 Nature of Crisis and the Adjustment Process | 24 |
| 4.2 Implication for Poverty | 27 |
| 4.3 Implications for Labour Market..... | 27 |
| 4.4 Implications for Women and Children..... | 28 |
| CHAPTER FIVE: IMPLICATIONS FOR PAKISTAN: WHAT CAN BE DONE? | 30 |
| REFERENCES | 33 |

Chapter One

INTRODUCTION

Although there is considerable debate regarding the success of public policy and IMF/World Bank structural adjustment programmes in correcting macro-economic imbalances in the country, little attention is focussed on the impact of these policies programmes on social development. In fact, the debate ignores even the international experience in this regard. The motivation behind this report is to fill this gap in the on-going debate in the country.

This report examines the social implications of economic crisis in developing countries which have undergone economic shocks some of which are similar to Pakistan. These countries initiated structural adjustment and stabilisation policies either on their own or with the help of the international financial institutions. Our main objective is to see if parallels can be drawn and lessons learnt from the experience of these countries.

The review covers the experience of eleven countries. These include Malaysia, Indonesia and India from Asia; Brazil, Chile, Costa Rica, Bolivia, Mexico and Argentina from Latin America; and Ghana and Morocco from Africa.

The report is organized as follows: Chapter two gives the country profiles, highlighting some of the features of their respective economic crisis. Chapter three describes the impact of the economic crisis on social development in these countries. Stylized facts are derived from these experiences. Based on the international experience implications for Pakistan regarding what to expect are presented in chapter four. Finally, chapter five summaries what these countries have done to mitigate the impact of the crisis and structural adjustments on the vulnerable groups of population. Lessons Pakistan can learn from these are also summarized.

Chapter Two

COUNTRY PROFILES OF ECONOMIC CRISIS

In this chapter we briefly present the genesis of economic crisis in the sample countries.

Ghana:

Experienced a fall in the production of both export goods as well as of food in the late 1970s. This was caused both by domestic policy as well as external shocks such as commodity price deterioration and the international oil shock. The sharp decline in economic activities led to a decrease in government resources. This combined with large budgetary deficits and persistent expansion in the money supply led to a shortage of foreign exchange and high inflation. The country also had an overvalued exchange rate with the result that the share of external trade accounted for by smuggling increased. Another factor which aggravated the situation was the presence of drought in 1983. The same year the government undertook a comprehensive package of reforms backed by the IMF. The data used in this study covers the period 1983 to 1988.

India:

India's worsening macroeconomic performance of the 1990s was the result of various international and domestic factors. One of the economic policies which was criticised by the World Bank was India's reliance on Import Substituting Industrialization (ISI). This Strategy was implemented through capital controls, overvalued exchange rate, high protection and quantitative restrictions on imports. The result was high capital intensity, low capital productivity, underutilised capacity, low labour absorption and negative value-added industrialization. Macro policies also reinforced this trend: for example, in the banking sector there were low nominal interest rates and the channelling of credit to priority sectors at subsidised rates. The result was that directed investment often had low rate of return. As a result of which banks were burdened with bad debts and non-performing loans. At the same time investors had to contend with complex bureaucratic controls. Generally, in both agriculture and industry it was the smaller units who suffered as a result of these restrictions.

Overvalued exchange rates and the design of quantitative tariffs had an anti-export and anti-agriculture bias. The result was that the performance of exports was poor.

Fiscal problems also deepened as government spending continued to increase through the 70s and 80s. At the same time public sector enterprises proved a major drain on resources. The result was that by 1991, India's growth rate of GDP stood at 1.2 per cent and the Gulf Crisis contributed to a severe BOP crisis as the price of oil spiralled. After India's foreign exchange reserves fell to \$1 billion, India was forced to sign an agreement with the IMF to begin a stabilisation program as well as to reform the economy through liberalisation in trade, banking, and the exchange rate regime.

Brazil:

The first oil shock of 1973 led to a situation of an external imbalance in Brazil which the government instead of correcting worsened through the increase in external indebtedness. The increase in world interest rates during the second crisis also contributed to a mounting foreign debt. At the same time the government pursued expansionary demand policies leading to rapid wage increases, domestic negative real interest rates and exchange rate overvaluation. The country continued to borrow heavily on the international markets and in 1982 was forced to declare this incapacity to meet this debt servicing requirement. Adjustment had already begun at the end of 1980. It was moderately successful in that it increased its Balance of Payments (BOP) surplus but failed to cut back on government consumption which was financed through deficit financing and inflation. This in turn had negative distributional effects. Our data examines the period 1980-1995.

Malaysia:

Malaysia underwent sharp fluctuations in economic activity associated with the commodity and oil price booms and falls in the 1980s. The heavy foreign borrowing needed to finance the Government's counter cyclical fiscal policy (in order to keep the upswing going) led to a recession of some severity in 1985-86. The behaviour of wages in the tradeable sectors also led to Malaysia's loss of competitiveness in the world market and contributed to the recession.

Morocco:

In Morocco adjustment took place in the context of a BOP crisis. A rise in phosphate prices in the early 1970s led the government to undertake ambitious spending projects with the result that the government deficit jumped to 15% of GDP by 1977 and the current account and the domestic resource gap was left standing at 17% and 20% respectively of GDP. However, a sharp decline in phosphate prices led to a decline in the terms of trade. Between 1976-83, the terms of trade went down by 40%. At the same time Morocco's external debt also rose from \$6 billion in 1979 to \$12 billion in 1982 as a result of external borrowing to finance the country's budget deficit. The growing external imbalances led to a virtual exhaustion of the country's foreign exchange reserves by 1983. The government had already implemented a stabilization package in 1978-83 but this was abandoned due to the second oil shock, drought and mounting opposition to reform at home. In mid-1983, the government-imposed import restrictions and drastic budget cuts as an emergency measure and then was forced to resort to the IMF and the World Bank to reschedule its foreign debt and to obtain fresh loans. The new measures were a set of short-term stabilisation measures under the guidance of the IMF while liberalisation and long-term structural reform were the focus of the World Bank's structural adjustment agreement. The stabilization tools included measures to cut aggregate demand through government investment cuts, devaluation, credit squeeze and reduction of food and other subsidies. The long-term measures aimed at stimulating output in export-oriented industries and enhancing growth by eliminating supply side inefficiencies. Therefore, there was extensive liberalisation of price controls. Other measures included removal of government trading monopolies, narrowing of the market and official exchange rates, continued devaluation of the official exchange rate and reform of the tax system.

The outcome of these programs was that the budget deficit was reduced to 3.5% of GDP in 1990. This was achieved by cutting government investment and by reducing subsidies and current transfers. In 1988 the current account actually showed a surplus. This was the result of reductions in imports arising from slower GDP growth and investment in the post reform period. Tourism, labour intensive textiles, garments and manufacturing derivatives of phosphate helped to expand exports. Morocco was also able to sustain its economic growth as a result of exceptional growth in agriculture during the adjustment period.

Chile:

Chile's economy showed stagnation and even a downward trend over the 1974-85 period. This was accompanied by a fall in domestic investment and a weakening of the productive base. These factors then led to a fall in industrial production and employment and at the same time a deterioration in income distribution and in the living standards of rural and urban low-income groups. There were two main causes of the crisis. The external causes were the two world recessions in 1975 and 1981 and increased international liquidity which increased the country's indebtedness. Then there were the country's internal macroeconomic imbalances in the form of high inflation and the impact of the neo-liberal package implemented by the military government which took power in 1973.

As a result of these imbalances, the country experienced a fall in its terms of trade. This coincided with an attempt by the government to curb aggregate demand through monetarist policies aimed at freezing wages, reducing government spending, privatization and liberalizing trade. One of the main concerns of the government was the rate of inflation. Though this was eventually controlled, the foreign sector and domestic production suffered as a result. By 1977, the economy had begun recovery and there were talks of a "Chilean miracle." This was due to high growth rates (1977-81) and decreasing inflation. However, unemployment was still high and much of the new private investment spurred by the opening of the economy was in financial and real estate markets. This increased the private sector's indebtedness. When the second world recession began in 1981, the government began another stabilization program with the result that GDP was even lower in 1985 than in 1974. The country still had to face the burden of its external debt and its industrial base had weakened. The only positive aspects of this period were an increase in exports and control over inflation.

Brazil:

Brazil had an economy which enjoyed high growth rates till the first oil shock of 1973. It was at this stage that the government decided to ignore the external imbalance caused by the shock and instead, concentrate on maintaining growth rates mainly through an expansionary fiscal and monetary policy which boosted aggregate demand. Other measures included the rapid indexation of wages, negative real domestic interest rates and exchange rate overvaluation.

The growth rate reached a high level in 1980 but the second oil shock at the end of the 70s had increased Brazil's indebtedness and at the same time international interest rates increased sharply. By 1982, the crisis which had affected Mexico and other indebted countries, led Brazil to declare its incapacity to meet its external debt servicing payments. The result was that at the beginning of 1983, an adjustment programme was initiated by the government, which led to a substantial decline in GDP.

The measures taken under the structural adjustment programme included increased tax mobilisation, monetary policy of high interest rates and a 30 per cent devaluation of the cruzeiro. This had a recessionary impact on the economy. Although the programme was not adhered to completely, its main achievement was the emergence of large and consistent trade surpluses. In 1983, this was achieved through import restrictions which had a recessionary impact on the economy. However, 1984 saw exports to the US expand and at the same time, import substituting measures helped the economy. After three years of decline, per capita GDP finally began to rise in 1984.

Increases in national income stimulated the production of consumer goods. At the same time there was a sharp increase in inflation partly as a result of the mismanagement of fiscal and monetary policy and partly due to the effects of the indexation system which had absorbed the effects of the various shocks by increases in inflation. A relaxation of earlier wage policy led to increases in wages above the inflation rate as the demand for labour grew. To combat the sharp increase in inflation, the government undertook the 'heterodox shock' of 1986 or the Cruzado Plan. Its main features were the introduction of a new currency in the ratio of 1:1000 of old to new, sharp decrease in the coverage and frequency of indexation measures and a price freeze. The policy was initially welcomed which helped with its success in the first few months but eventually it was put under pressure by continued monetary and fiscal deficit expansion and pressure for wage increases by unions.

The government began to give way to wage demands and the price freeze was relaxed in 1986. Indexation was partially restored and by 1987, inflation began to approach its pre plan level.

At the same time concerns about the substantial payments going abroad as interest led to a temporary suspension of interest payments in 1987.

There have been two stabilisation programs since the Cruzado Plan. These have primarily checked hyperinflation but have been unable to reverse the trend of negative government savings. The overall assessment of the Brazilian economy in the years 1980-95 is that during the first half of the 80s domestic income increased and a trade surplus was achieved. Consumption also increased but public consumption increased about 50% more than private consumption and this increase did not translate into protection against declining living standards. The increased debt service was greater than the rise in domestic savings with the result that investment was sharply reduced.

Costa Rica:

Costa Rica was considered exceptional in terms of its above average growth and living standards in the Latin American region in the 1970s. Costa Rica is ranked by the World Bank as a lower middle income developing country with social indicators which can be compared to those of upper middle- income countries. Another asset possessed by Costa Rica is its stable political environment and commitment to democratic rule.

The backdrop to Costa Rica's economic crisis in the 1980s lies in its pattern of economic development over the last few decades. The introduction of a welfare state in 1948 boosted Costa Rica's social indicators but they also contributed to the rapid expansion of the public sector. At the same time the strategy of import substituting industrialisation led the state to involve itself in manufacturing and consequently it was under pressure to absorb the growing numbers of educated workers into the public sector at relatively high wages. The result was an increasing fiscal deficit which was had to be financed by borrowing on the international market. The government's response to a contractionary period following the rise in oil prices in 1974 was to pursue an expansionary policy which further aggravated the current account deficit due to increased demand for imports. When falling coffee prices, a shrinking demand for Costa Rica's exports, the increased cost of oil due to the 1979 oil shock and the curtailment of international financing for the balance of payments deficit, combined to produce a crisis, the

government once again used a recessionary economic policy. However, these measures contributed to a rise in imports and in the fiscal deficit. Eventually the government had to resort to massive devaluation and declare a moratorium on servicing the public sector's external debt. Rising inflation led to a fall in real wages and as GDP fell by 9%, industrial production was especially hard hit.

In 1982, a new government that came into power instituted a comprehensive stabilisation and structural adjustment programme. At the same time Costa Rica entered into agreements with the International Finance Institutions (IFIs). The brunt of the stabilisation measures was borne by the richer segments of society as the government had strong links to unions. By 1988, the country had recovered from economic crisis and output, employment and wages arrived back at their pre-crisis levels faster than in South American countries. Thus, Costa Rica would be a good example of a successful structural adjustment programme.

Bolivia:

The economic crisis in Bolivia started in 1980. The cause of the economic crisis was an artificial boom in the 70s which was fed by capital inflows and which followed the discovery of hydrocarbon resources. However, when foreign inflows diminished in 1980, economic performance slowed down and capital flight rose. By 1985, inflation had reached 24000% a year, real GDP per capita had fallen by a fifth since 1980 and the public deficit was one fourth of GDP. In August 1985, an orthodox stabilization package was introduced. The result was that most prices were freed, the trade system was deregulated, a uniform exchange rate (settled by daily auctions) was brought in and the public sector deficit was cut. Inflation was cut to 11% in 1987. The growth of the economy was held up by a negative terms of trade shock in the first year of the program but has improved since then. There were major institutional changes in the public sector and the state mining industry was closed down for restructuring and 90% of the employees were fired.

The Bolivian government attached great importance to the deterioration in social services. As a result, the Emergency Social Fund (ESF) was launched by the government. This was a demand driven program whereby funds were provided for small-scale labour-intensive

programs set up by local groups. The ESF was primarily a financing institution which aided those infrastructure projects that increased local employment as well as helped community development.

Mexico:

The structural adjustment data on Mexico examines the period between 1982 and 1992. In 1982, Mexico's external debt had reached such alarming proportions that the IMF and World Bank were forced to rescue the country from insolvency by advancing large loans. By 1989 this debt had grown to \$108 billion. At the same time Mexico had one of the biggest debt-service ratios as a percentage of exports. The percentage of the federal budget reserved for foreign and domestic debt was 60% and in the period between 1982-88, real GNP declined by 3.1% while debt /GNP ratio was over 95%.

The SAP programme undertaken by Mexico resulted in a reduction in the external debt to \$ 80 billion by 1990. The main features of this program included severe devaluation of the peso which led to a decrease in the real urban minimum wage by 46.4 per cent, which in the 1981-88 period was the largest decrease in the Latin America. At the same time the government undertook an austerity drive which resulted in government spending being cut in areas such as health, education and social security which resulted in unemployment among well-paid government employees. At the same time those who were still employed faced a decrease in real wages.

There was also a process of economic restructuring which resulted in privatisation of state-owned firms, decrease in public investment, trade liberalisation, the promotion of foreign investment and export promotion as a means of reducing the external debt. Debt related adjustment policies were also used to shift Mexican firms toward integration in the North American Free Trade Association. Thus, exports grew during this period and Mexico's economy grew more open vis a vis international trade and finance.

We next examine some of the key social consequences of the macro-economic situation and reforms package.

Chapter Three

SOCIAL IMPACT OF ECONOMIC CRISIS

Economic crisis and the consequent adjustment process is known to have substantial implications for the social well-being of the people. In particular, through its impact on the labour market, poverty and income distribution, and provision of basic amenities, the living standard of the masses, particularly the lower segments of the society can be severely affected. In this chapter we present some of the stylised facts emerging from the review of international experience on some of the key social dimensions.

3.1 LABOUR MARKET

3.1.1 *Employment Levels*

- *One consequence of economic crisis and of the early structural adjustment period is that unemployment rises.*

Official figures for **India** show that when it entered the reform program in 1991 there was an initial backlog of open unemployment in 1990 of around 13 million. Estimates suggest that the initial years of stabilization saw unemployment increase to a figure between 14 and 26 million by 1992-93. The rate of growth of the work force stood at 2.34 per cent per annum in 1981-91 therefore it was suggested that employment needed to grow at 3% per annum if full employment was to be achieved by the year 2004. This in turn would require a GDP growth rate of 6.7 per cent per annum over the next 10 years to maintain the current employment elasticity.

Chile has exhibited one of the most dramatic unemployment rates for countries undergoing adjustments. In 1983, the unemployment rate stood at one third of the labour force. The nature of unemployment at this time took the form of an increase in the length of time that workers were laid off. This was especially significant for the population aged 25 or older, which suggests that a large number of the unemployed were heads of household.

- *Under Structural Adjustment unemployment tends to be higher in urban areas and lower in rural areas. Groups that are hit by unemployment tend to include women and those with higher levels of education.*

In **Morocco** (1991), the unemployment rate in urban areas stood at more than 20% as opposed to 5% for rural areas. The unemployment rate for rural areas seem to have been stable for the past two decades while for urban unemployment it seems to have worsened due to adjustment. The groups that were the most badly hit by urban employment were women, youths (15-24 years) and those with primary and secondary education. In urban areas in 1986, the female rate of unemployment was 20.4 per cent while for men this figure was 13.9 per cent. Unemployment grew faster among women than among men. The majority of these unemployed women had been previously employed in domestic or personal services. The group aged 15 to 24 years made up more than 50% of the unemployed in urban areas. Meanwhile the rates of unemployment according to levels of education were as follows:

- | | |
|---|-------|
| • No educational degrees completed | 13.3% |
| • Primary School completed | 20.8% |
| • Secondary School completed | 28.0% |
| • Graduates from Professional Training Programs | 27.6% |

In **Malaysia** during the crisis (1985-1987) the rate of unemployment increased. Unemployment also increased with an increase in the level of education (more strongly for females). However, it decreased significantly as the income level of the family went up. For both sexes it was higher in urban areas but was significantly higher for females in poorer region.

In **Chile**, between 1976 and 1987, unemployment was at its most dramatic with unemployment levels of over 10% in all the years.

Costa Rica's experience shows that persons with high school education had the highest levels of unemployment in contrast with those with no education or with a college education who had the lowest rate of unemployment.

- *A common response to the crisis is the increase in the number of household members participating in the labour market in order to contribute to family income.*

In **Mexico** two groups were the most affected, population of teenagers who had to discontinue their education in order to earn an income, and women.

- *One of the effects of economic crisis is that underemployment increases especially where informalisation of labour takes place.*

Underemployment was observed in **Costa Rica, Bolivia,** and Argentina. In these countries underemployment moved with unemployment rates. Participation rates also changed and informalisation increased. In **Costa Rica**, the rate of underemployment took a year longer than the unemployment rate to return to its previous level. In **Morocco**, the adjustment period also seems to have been characterised by underemployment.

3.1.2 Sectoral Shifts in Employment

- One of the effects of economic crisis is that there is a shift from formal to informal sector employment. In particular, sectors linked to export activities grow if the focus is on export led reforms in the structural adjustment programs.

There was a shift from formal to informal sector employment in Argentina. Non-wage employment grew faster than wage employment in non-tradeables in the period 1960-1990 and in both manufacturing and agriculture, non-wage employment grew faster than wage employment. In Brazil there was a shift into the unprotected employee sector rather than self-employment. In Mexico for unskilled workers, it was difficult to find work in the formal sector. Absorption by the informal sector of this labour reserve has taken place under increasingly deteriorating conditions.

In the 1980s there was an expansion in the unorganized/informal sector in South Asia due to the slow growth or stagnation of employment in the organized private and public sector. There was diversion of labour to informal manufacturing sector activities (e.g., garment, tailoring, leather units, gems, etc.) linked to export activities. Therefore, any export led reforms, would be successful in raising employment in these activities.

In **Morocco** there seems to have been increased employment in low productivity informal work. The adjustment period has seen an increase in the share of employment of export oriented

industries such as the garment industry. The garment industry has been characterised by casualisation of labour and the employment of cheap female labour.

- *The informal sector helps to cushion some of the impact of economic crisis.*

Brazil witnessed an expansion in the urban informal market which cushioned some of the impact of the crisis on the population. This expansion would also suggest that there was increased underemployment.

- *Sectoral shifts also occur due to economic crisis and structural adjustment. If formal sector output declines, then jobs within the public and manufacturing sectors are cut leading people to shift back into agriculture or the tertiary sector. In particular, some economies have experienced a shift into agriculture due to improved terms of trade in that sector. Sectoral shifts have also occurred toward tradeables which fulfil one of the aims of economic reform.*

In **Malaysia**, during the 1980's recession, agriculture provided a third of new jobs. This along with private services, was able to offset the decline in manufacturing and government employment. The private tertiary sector absorbed no less than 72% of the increase in employment. Examining the data on **Morocco**, it appears that the services industry was able to absorb some of the surplus labour in the economy due to the relative ease of entry in that sector. Agriculture despite a steady growth rate seems to have suffered from low productivity indicating that retention rates were higher due to limited opportunities outside the sector.

3.1.3 *Relative Wages*

- *There may be a decline in relative wages during economic crisis and structural adjustment.*

In **Costa Rica**, relative wages fell in the non-tradeable and in the import sector during the 1980-82 recession but recovered in the recovery period which followed. In **Mexico** for those employed in the public sector, real wages fell in periods of drastic cuts in government spending.

- *Wages in the informal and formal sectors suffer from wage fluctuations.*

During the early 1980s recession in Costa Rica, Chile, and Brazil the informal sector did relatively worse as a result of crowding. In Malaysia male self-employed wages grew faster than employee wages in both the boom and recession periods whereas female employee wages

did better in the boom but fell relative to self-employed wages in the recession. It is therefore suggested that there were pockets of female informal sector employment which did not participate in the economic boom unlike the rest of the economy. In Malaysia during the crisis of 1985-87 the role of the private sector in labor absorption increased.

3.1.4 Public Sector Employment Trends

- *Public sector employment is usually adversely affected by economic crisis though the severity varies from country to country.*

Public sector employment eventually decreased in **Bolivia, Chile** and **Costa Rica** but not in **Argentina. Malaysia** responded to the recession by slowing down government hiring. The relative decline in the wages of the public sector reflects the difficulty of adjusting labour quantities in that sector. In **Mexico** drastic cuts in government spending in areas such as health, education, and social security resulted in unemployment among previously well-paid government employees.

3.1.5 Women and Labour Market Adjustments

- *A consequence of crisis and adjustment on women is that they tend to experience higher unemployment than men. This is particularly true if few opportunities exist outside the public sector.*

In **Malaysia** women's employment in the recession suffered more than that of men due to their weaker position in the labour market (1984-87). Also, there was a rise in the number of educated unemployed women as there were few private sector opportunities for them.

- *If women are concentrated more heavily in the non-tradeable sector relative to men, then adjustment will affect them disproportionately.*

Ghana is an example of women losing out on employment opportunities due to resources being given to cash crop agriculture instead of food crops which was dominated by them. In Argentina, the main sources of employment for new entrants to the labour force were in the non-tradeable, low productivity sectors.

- *Generally, the informal sector provides greater employment opportunities to women than the public sector. Education had a mixed impact on women's employment activities helping women's chances of finding a job in some countries in times of recession and hindering their chances in others.*

In **Malaysia** women's participation rate in urban areas and in the secondary and tertiary sectors was highest than in other sectors. Female unemployment tended to increase with an increase in the level of education, even more so for women than for men. A study conducted for South Asia by the World Bank suggests that women's economic participation has a U-shaped relationship with education. One study suggests that structural adjustment may alter this relationship, leading to a demand for women workers with medium education who can work in labour intensive industries. In Mexico, women tend to be the least schooled family members, a fact that makes them less able to find formal employment requiring minimum of literacy skills.

- *Female labour force participation does not always decrease if there is an economic crisis. Women are sometimes forced by economic hardship to seek employment.*

In **Latin America** women's labour force participation had been increasing due to sectoral shifts (in particular increased employment in the service sector) as well as higher participation within sectors. Econometrics analysis for **Chile** shows that unemployment caused by structural adjustment does not have a differential effect on discouraging female and male labour force participation. Equally, in **Costa Rica**, new female entrants to the labour force found jobs as easily as their male counterparts which is reflected in the fall in female share of unemployment even as the female share in the labour force was rising. Female employment rose from 25% of the workforce in the early 1980s to 30% by 1988. The rise in female entrants to the labour force helped to boost family incomes. In **Argentina**, female participation rose in the labour force especially by women in the 35-49 age group.

- *Women suffer discrimination in the labour market during times of economic crisis*

Chile and **Bolivia** both had emergency employment schemes which explicitly targeted male workers at least initially (women were not eligible to participate).

- *As an economic crisis leads to cutbacks in social sector spending, the result is often inadequate public services, which results in women spending as much time on unpaid work as on market work.*

In Mexico, the women had to undertake a large proportion of the domestic work regardless of whether they were also working in the labour market or not. From daily shopping due to more restrictive budgets, to the need for increased cleaning and tidying when living spaces are

reduced, to more cooking, fixing, mending and sewing at home. For the middle-class housewives the increase in domestic work was due to a reduction in domestic help.

- *Women's wages decrease during the economic crisis due to their weaker position in the labour force and also if there is increased female participation.*

Costa Rica's experience shows that the male-female earnings differentials increased during the crisis and decreased thereafter which was probably due to rising female participation during the crisis. The new female entrants were less well qualified educationally than previous ones which led to lower earnings.

In **Malaysia** women's employment relative to men suffered due to their weaker position in the labour market during the recession (1984-87). There was a fall in wages of highly skilled female labour relative to skilled male labour. The gains that women had made in terms of wage increases and the returns to female education and experience were all reversed during the recession.

In **Argentina** in 1980, the average female wage was 56% of the male wage.

3.1.6 Labor Market Flexibility

- *Where there are institutional pressures such as trade unions and political patronage, real wages go up. By and large, real wages have declined in adjusting countries and in some countries, there has been a decline in aggregate demand.*

In **South Asia** real wages went up in the manufacturing and public sectors. This has been attributed to institutional pressures such as trade unions and political patronage

As far as labor mobility is concerned, labor turnover rates are low and labor in the manufacturing sector is seen as skills-inflexible. Studies suggest that the existing work-force is seen as a fixed cost phenomenon which creates constraints to firms facing fluctuating industrial prices. Mobility is also insignificant as far as the organized -unorganized labour divide is concerned. This could be due to trade unions, political interference at the enterprise level and legislation in favour of workers. As interventions in labour markets in **South Asia** is historically embedded it would take time for existing institutions to start responding to economic reforms. In **Mexico** the pressure to reduce real wages and weaken labour organisations intensified, which affected the stable working class and middle class.

- *The role of labor market institutions has had a mixed impact on reforms with some countries providing examples of co-operation and compromises while others have confronted militant positions with respect to labor's demands.*

Labour market institutions remained strong in three **Latin American** countries, **Argentina**, **Brazil** and **Costa Rica** despite the economic crisis whereas in **Bolivia** and **Chile** they were dismantled or were weakened. In both **Argentina** and **Chile**, they received blame for impeding labour market mobility.

In **Morocco** the depreciation of the real effective exchange rate and reductions in real wages occurred amid low inflation and low rates of money wage increases. This points to the fact that labour institutions in **Morocco** were quite weak and the government's ability to curb money wage demands was strong. As the government was the main employer in the urban areas it was able to exert a In Morocco the depreciation of the real effective exchange rate and reductions in real wages occurred amid low inflation and low rates of money wage increases. This points to the fact that labour institutions in Morocco were quite weak and the government's ability to curb money wage demands was strong. As the government was the main employer in the urban areas it was able to exert a powerful influence over the labour market through its policies such as minimum wage legislation and public sector path. The period of adjustment seems to have made labour markets more flexible.

3.2 POVERTY AND INCOME DISTRIBUTION

3.2.1 Poverty

- *There is an increase in poverty under structural programmes to due higher transitional unemployment and a decline in real wages.*
- *The impact of poverty on the population in the case of an economic crisis is also determined by the policies of the government. The use of fiscal and monetary policy instruments can determine to a large extent the severity and nature of poverty.*

In **Brazil** the government did not cut back on consumption in the 1980s with the result that they were able to prevent an increase in poverty. However, by 1986 the distributional costs of large outlays of public spending were higher than the income gains, which resulted in a widening of the income gap. At the same time these policies resulted in declining private sector investment and increasing capital flight. During the recession of 1981-83 nearly all the increase in poverty took place as a result of a decline of 15% of formal sector output. One cause of the

output decline was **Brazil's** reliance on investment reducing monetary policies instead of fiscal adjustments. **Brazil's** wage policies in the 1980s favoured formal sector workers especially during the recession. This is unusual for countries undergoing stabilisation. During the recession, private sector firms did not reduce employment as fast as the decline in output, instead choosing to stockpile labour and sacrifice profits. The income multiplier effects of this action were strong enough to prevent real incomes in the informal sectors from falling relative to the informal sector.

New entrants to the labour force in Argentina were crowded in areas like construction, commerce and services: all sectors with low productivity and high incidence of poverty and unemployment.

- *Those whose incomes depend heavily on wages and salaries or casual earnings and are not adjusted for price increases, see a steady deterioration in their living standards. This is known as the “crushing of labour effect”.*

In **Mexico**, rising unemployment, price increases, reduction of services and reorientation of the economy away from the domestic market have resulted in a persistent deterioration of living standards, particularly for those whose living depends on wages and salaries and on casual earnings.

This is also referred to as the “crushing of labour” as the relative share of GNP going to labour fell drastically. The disparity between price and salary increases had an impact on most social classes. The poor were the most affected, as their very subsistence was threatened.

- *An economic crisis affects those in low income occupations more than those with jobs in sectors which are more resistant to economic shocks. At times this division can be ethnic in nature.*

In **Malaysia** (1985-87) the incidence of poverty was much higher among the Malays who dominated the low-income activities, than the Chinese who were found in the more dynamic sectors of industry and commerce.

3.2.2 Income Distribution

- *Income distribution is adversely affected by economic crisis especially if there is high unemployment. If structural adjustment is successful in achieving higher output in the economy, then income distribution can improve.*

Chile's income distribution worsened sharply in 1974-76 at the start of the adjustment period and worsened again in 1979-84. Until 1991, inequality had improved slightly but to a level much worse than at any time in the period 1960-74. This can be attributed to the massive cut in real wages and high unemployment levels. In Argentina income distribution worsened in **Buenos Aires** (1974-88) where the top two income declines gained at the expense of all others. In **Costa Rica** inequality possibly increased between 1971-83 but after the start of the adjustment program, the data is ambiguous as to what actually happened.

For **Bolivia**, there was a probable improvement in income distribution between 1982-85 (informal sector wages rose relatively during the hyper-inflation) but by 1988 distribution reflected 1982 levels.

Malaysia's income distribution improved where resources were put into agriculture.

In **Mexico** sectors of the business class connected with the export sector benefitted considerably from the economic changes associated with restructuring, whereas some sectors of the population experienced drastic reductions in living standard.

3.3 SOCIAL SERVICE PROVISION

3.1.1 Education

- *Economic crisis can result in a lowering of enrolment rates for school children due to the drop in parents' income or the introduction of user charges. Usually, the first to drop out during the crisis are the poor.*

Economic difficulties lead to lower income and changes in employment which cause movement to other residential areas. This affects children's performance at school. In **Brazil** children's dropout rate increased significantly during the economic crisis. The public education system in general suffers from various problems e.g., poorly paid administration, teachers, lacking motivation and adequate training, and a shortage of resources for school supplies. These problems were further aggravated by the crisis.

In **Chile** primary education registration as well as the schooling rate of the population 6-14 years of age fell, while the dropout rates increased. This tendency was stronger in poor households. **Costa Rica's** primary, secondary and tertiary enrollment rates fell during the economic crisis but while the primary and tertiary rates went back to the pre-crisis level, the secondary rate remained below the pre-crisis level.

Mexico's experience was that some teenagers had to discontinue education to earn an income. This was common among teenagers finishing secondary public school. Given the duration of the crisis interruptions in schooling are likely to be permanent, therefore leaving a lasting negative impact on the educational and skill levels of the population.

3.3.2 Health

- *One of the impacts of an economic crisis is a cut in social sector expenditure which leads to negative effects especially in the area of health. One of the first victims of the cutback are usually women and children who are unable to obtain basic health services as user charges are usually introduced.*

In **Chile** and **Brazil** it was necessary to cut staff, including in medical and paramedical areas. It became difficult to maintain the quantity and quality of services rendered to the children and their mothers, discouraging them from having routine and preventive examinations. Thus, the proportion of infant deaths due to infectious and parasitic diseases increased in 1984.

In **Chile** the number of notified cases of typhoid and hepatitis went significantly up in 1982-84 regardless of age. However, the incidence was higher in the population of 5-14 years.

Mexico's social indicators also pointed towards diminishing health and educational standards as well as toward a deterioration of the quality of life.

- *A reduction in overall government spending, decreases the amount spent on social sector spending in both real and absolute terms.*

In **Costa Rica**, there was a decline in health and education spending in real terms. This decline did not occur in the level of health or educational services but rather was reflected in a fall in the level spent on equipments and buildings and a decline in real wages in education with the result that the main effects would be felt after the crisis was over.

- *Infant Mortality Rates (IMR) increase as there is a cutback in health expenditures during an economic crisis.*

Infant Mortality Rate (IMR) clearly went up for Brazil in the crisis period after falling in the years leading up to the crisis. The main increase in IMR was the result of an outbreak of measles. Though the outbreak was caused more by an administrative delay in immunization rather than financial constraints, it is claimed that adverse economic conditions resulted in the weakening the health of many children, thus making them more vulnerable to illness. There

was also an increase in infant deaths related to respiratory diseases, infectious diseases and malnutrition.

3.3.3 *Nutrition*

- *An economic crisis has an adverse impact on nutrition due to the fall in incomes and unemployment. There tends to be a substitution of normal foodstuffs for inferior foodstuffs which can lead to deficiencies in the diets of the poor.*

In **Chile**, there was a reduction in the absolute expenditure level on food items in the poorest households which resulted in an increased consumption of starch and flour and lower consumption of meat, oils and vegetable. There was a significant increase in the deficit of calorie and protein intakes for 40% of the poorest households. This can be attributed to lower purchasing power parity due to inflation, unemployment and a fall in wages.

Mexico's indicators suggest that at least for the poor there was a drastic decrease in food consumption. The "great difficulties" mentioned in many households were not caused by food scarcity or deficiency in distribution but by insufficient income to buy it.

3.4 CHANGES IN QUALITY OF LIFE

3.4.1 *Increase in Abuse and Violence*

- *There is an increase in child beggary and child violations during an economic crisis.*

In **Brazil** the number of children abandoned by their parents increased during 1982-84. Child delinquency is considered one of the most important consequences of the economic crisis. In Brazil there was a sharp increase in cases classified as violation of law, although a large proportion of violations committed by children remain unreported.

In **Chile** there was a sharp increase in child beggary as a result of economic crisis.

In **Mexico** some experienced unemployment, inability to generate the income necessary for bare survival, domestic violence, housing deficiencies, absence of any community support, abandonment, and so on. These were cases often associated with drunken husband, prostitution, drugs, or some other forms of criminal behaviour. The economic crisis intensified these problems.

3.4.2 *Law and Order Situation*

- *Law and order can also be an issue during economic crises particularly where the government is already politically unpopular and is trying to force a set of difficult*

economic reforms that have a drastic impact on prices. In particular the price of food can be a trigger for unrest and violence in a country undergoing economic crisis.

During **Indonesia's** Economic Crisis of 1997-98 banks were shut, there was a sharp decline in the value of currency, debt-laden domestic companies were closing, there were layoffs by the thousands, investments were cancelled and there was the flight of capital out of the country. Food and electricity price hikes dictated by the IMF were partly responsible for the subsequent rioting. Fuel prices were suspended in May 1998 sending the price of petrol, diesel and kerosene rocketing. This provoked large scale demonstrations. Savage riots broke out as four students (anti-Suharto) were gunned down by security forces on May 12. People stoned, bombed, burnt, wrecked, and stole whatever they wanted. The capital was shattered. Though thousands of soldiers patrolled the streets by May 15 more than 500 people had died, many torched by rioters in malls, some shot by police. Smoke drifted from burnt out buildings, roads were empty of their day-to-day traffic. Thousands of buildings had been reduced to rubble, all told \$ one billion worth of destruction. As the Chinese control 60% of the country's assets, resentment against the Chinese dominance of the economy lead to the burning and looting of the Chinese and their shops. Residents phoned the police station and military posts for help, but no one answered their calls. All in all some 1,188 people died, 468 women were raped, 40 malls, 2,470 shops and houses and 1,119 cars were looted or destroyed.

3.4.3 Changes in Consumption Patterns

- *Economic crisis also results in changes in living patterns. Imported goods are purchased less frequently as their price goes up due to devaluation, spending on luxury items decreases and other forms of belt tightening occur.*

Brazil's economic crisis resulted in belt tightening by families. Prices not brand names became the determining factor in consumer choices. The result of this was that sales of imported beverages fell in this period, cheaper types of transportation were used and own car use declined. At the same time, credit applications became more frequent, the use of free health care went up and beauty parlours were used less often. These measures, together with the search for employment opportunities in the informal sector and an increase in the average propensity to consume, were responsible for reducing or delaying some of the more serious effects of the adjustment process.

In **Mexico** over 69 percent of the households regularly bought less food, clothing, shoes, and other daily expenses such as transportation, drinks, and snacks than during the pre-1982 period.

What exactly had been cut however varied according to household incomes and class background. From the need to save on transportation, almost 51 percent of the households decreased or eliminated trips to visit relatives, friends and their attendance at family parties and religious holidays.

Chapter Four

IMPLICATIONS FOR PAKISTAN: WHAT TO EXPECT?

4.1 NATURE OF THE ECONOMIC CRISIS AND THE ADJUSTMENT PROCESS

There is general agreement that the country is experiencing a severe economic crisis. The genesis of the crisis are, however, debated in the country. Some argue that it is a consequence of structural problems culminating from poor governance, politicisation of the economy and institutional decay witnessed since the early 70's. Others hold that it is a short-run liquidity crisis precipitated by international sanctions imposed on the country in the aftermath of the nuclear tests in May 1998.

Though the recent events may have exacerbated the situation, Pakistan's fiscal problems were aggravated by the soft fiscal and monetary policies of the military regime of the 1980s. Tax breaks were given to different groups to buy their loyalty in order to increase the popularity of the military regime. One reason for a ballooning of the fiscal deficit to almost 10 per cent of GDP was increased military spending. At the same time public debt increased from less than 40 per cent of GDP to 80 per cent during the 1980s.

Pakistan signed its first Extended Structural Adjustment Facility (ESAF) program with the IMF in 1988. One of the main aims of the programme was to lower the budget and current account deficits. Amongst the tools used for this purpose were the removal of price distortions and structural reform of the economy. The economy however performed poorly on nearly all economic indicators in the period 1988-1994. Average inflation was up by 3% in 1990s compared to 1980s. While the current account deficit fell by a full percentage point in the current decade from the 1980s onwards, the country has faced a lack of growth in exports coupled with foreign reserve crises. GDP growth was also down by 2 percent due primarily to a fall in manufacturing. This also contributed to the country's increasing inability to service its large foreign debt which by 1994 had reached 47.9% of GDP. Despite the market-based interest rates introduced by banks, the government continued to borrow heavily from domestic banks. In 1999, the country eventually had to reschedule its debt as a worsening macroeconomic situation coupled with foreign exchange reserve crises had brought it to the brink of insolvency. Pakistan's performance in key economic indicators is presented in table 1.

TABLE 1
PAKISTAN'S PERFORMANCE IN KEY ECONOMIC INDICATORS

| Stabilization Indicators | 1988-89 to 1997-98 % |
|---|---------------------------------|
| Rate of Inflation | 10.7 |
| Budget Deficit (% of GDP) | 6.7 |
| Current Account Deficit (% of GDP) | 5.5 |
| Total Revenue as % of GDP | 17.4 |
| Public Expenditure as % of GDP | 24.4 |
| Export of Goods as % of GDP | 19.2 |
| Import of Goods as % of GDP | 17.9 |
| Growth Rate in Export of Goods (\$) | 7.5 |
| Growth Rate in Imports of Goods (\$) | 6.7 |
| Depreciation of Nominal Exchange Rate | 9.4 |
| Growth Rate in Money Supply (M ₂) | 15.8 |
| Nominal Interest Rate on Deposits | 6.2 ^a |

^a88-89 to 96-97.

Source: Economic Survey, Finance Division, Government of Pakistan.

Pakistan had to revive the IMF/WB, ESAF/EFF program prior to the rescheduling of its debt. Key program conditionalities are presented below:

KEY CONDITIONALITIES IN THE ESAF/EFF PROGRAM

| REVENUES | PUBLIC EXPENDITURE | OTHERS |
|---|---|---|
| <p>General Sales Tax</p> <ul style="list-style-type: none"> • Increase in GST rate from 12.5% to 15%.* • Extension of GST to services, petroleum Products, electricity and agricultural inputs in 1999-2000. <p>Customs Duty</p> <ul style="list-style-type: none"> • Reduction in the maximum tariff rate (from 45% to 30-35%). <p>Agricultural Income Tax (AIT)</p> <ul style="list-style-type: none"> • Strengthening of collection mechanisms of the AIT in all four provinces to ensure achievement of a target of Rs 2.5 billion in 1998-99. • Development of an action plan for improvement of the AIT by March 1999 to achieve a revenue target of 0.3% of GDP (equivalent to Rs 9 billion currently) in the medium term. <p>Petroleum Development Surcharge</p> <ul style="list-style-type: none"> • Enhancement in the tax incidence on petroleum products. <p>Tax Administration</p> <ul style="list-style-type: none"> • Legislation for establishment of a Pakistan Revenue Service to be presented to parliament. | <p>General</p> <ul style="list-style-type: none"> • Existing hiring freezes at the federal level to be maintained (with some exceptions, such as SAP and tax departments). • Implementation of restructuring of federal divisions to start in 1999-2000. • An action plan for civil service reform to be prepared by June 1999 and implementation to begin in 1999-2000. <p>Subsidies</p> <ul style="list-style-type: none"> • Reduction and elimination (in two stages of the electricity subsidy to domestic consumers by September 1999). <p>Development Expenditure</p> <ul style="list-style-type: none"> • Cut in the PSDP for 1998-99 from Rs 110 billion to Rs 98 billion. • Agreement with the World Bank to scrutinize any new project carefully. <p>Social Action Program</p> <ul style="list-style-type: none"> • Total rupee expenditure on SAP (excluding foreign project assistance) to be Rs 56.5 billion in 1998-99, with at least Rs 5.5 billion in non-salary expenditures. | <p>Financial Sector</p> <ul style="list-style-type: none"> • Divestiture of the government's remaining ownership interests in the Muslim Commercial Bank and Allied Bank. • Privatization of Habib Bank Ltd., United Bank Ltd., National Bank of Pakistan, National Development Finance Corporation and the Industrial Development Bank of Pakistan. <p>Foreign Exchange Market</p> <ul style="list-style-type: none"> • The exchange rate regime to be fully unified at an appropriate time to improve economic efficiency. |

*to be implemented prior to program resumption.

The major objectives of the Program are to reduce the current account deficit to 1.5 per cent of the GDP by 2001-02 and the budget deficit to 3.3 per cent in 1999-2000. However, the program is likely to have important social consequences. These are discussed in the following sections.

4.2 IMPLICATIONS ON POVERTY

The policy conditionalities of the IMF program are likely to have a bearing on the poverty level in the country. Poverty will be adversely affected by a rise in power tariffs, increase in and extension of GST, cuts in development expenditure, removal of the wheat subsidy and exchange rate depreciation (which will increase the price of basic goods, like wheat and petroleum). The potential favourable effects of the IMF policy framework are the removal of import restrictions, higher foreign and debt rescheduling. However, research on the determinants of poverty in Pakistan, [Akhtar et.al 1999]) and international experience indicates that the former may outweigh the latter.

Important determinants of poverty in Pakistan include per capita income, home remittances, food prices and unemployment level. International and Pakistani evidence indicates that growth is generally traded off for stabilisation during structural adjustment. As such, per capita income in Pakistan is likely to be lower both due to lower growth as well as lower home remittances. At the same time food prices are likely to be significantly higher because of faster devaluation of the currency. The removal of the wheat subsidy will also add to the food costs of the poor who might either substitute wheat for inferior grains or may consume less. Higher wheat prices will further worsen urban poverty relative to rural poverty also. Also, in the medium-run the unemployment rate may be higher because of the slowdown in economic growth. Altogether, the incidence of poverty, in which we already witness an upturn in the 90's, is likely to increase further in the coming years.

4.3 IMPLICATIONS FOR LABOUR MARKET

Structural adjustment in coming years is likely to affect employment level in the country. This is because, first, there is likely to be a slowdown in the economy thereby reducing the demand for labor, second, the public sector enterprise reforms and privatisation as envisaged in ESAF might also increase unemployment.

Over the next two years Pakistan Railways will be privatised and the Water and Power Development Authority (WAPDA) will be down sized. At the same time plans are being drawn up for the privatisation of Karachi Electric Supply Corporation (KESC) and the divestiture of the government's remaining share in major commercial banks. If these measures are carried

out they will further increase unemployment. Besides, freeze on public sector hiring, restructuring of federal divisions and civil service reforms may also have adverse implications for public sector employment. On top of this, reduction in the maximum custom tariff rates, can potentially have an adverse impact on domestic industry, thereby displacing labour in the private sector also.

Research conducted by SPDC [Pasha et.al (1999)] shows that the educated unemployment rate in Pakistan increases by 1.1 per cent if the unemployment rate increases by 1 percent in the country. This finding is consistent with international experience presented in chapter 3. As such, any increase in unemployment is likely to adversely affect the educated labour force disproportionately.

Nominal wages will depend on the price level and the unemployment rate in the country. In Pakistan wages adjust only partially to high inflation, therefore, real wages would tend to fall as the short-term response to the adverse economic situation. The behaviour of real wages would be consistent with international findings which indicate that real wages tend to decline under conditions of economic crisis.

4.4 IMPLICATIONS FOR WOMEN AND CHILDREN

Research shows that important among determinants of gender inequality in Pakistan are per capita income and provision of pro-women services, particularly access to schooling [Ghaus, Pasha, et.al (1999)]. A lower per capita income, because of the possible broadening of the education, nutrition and health gap between males and females at the household level and a deterioration in economic opportunities for women, is likely to increase gender inequality in the country.

In Pakistan there is a clear correlation between a worsening macro economy and a decline in social sector spending. In 1996-97, expenditures peaked at 2.1 per cent and have since fallen back to 1.8 per cent of GDP in 1998-99. The IMF program in place envisages a somewhat lower expenditure on SAP. Therefore, one can conclude that in line with international experience women, as the prime beneficiaries of social services provided by the government, will suffer in term of extended time spent on providing these services to their family. A tighter labour market will further diminish improvements in the status of women.

Children are also likely to suffer from declines in health and education budgets. This is particularly true of poorer children. Increased poverty leads to lower consumption of normal

food stuffs (which are substituted for inferior foodstuffs which in turn could lead to malnutrition). Research conducted by SPDC (Social Development in Pakistan, Annual Review, 1999) on variation in the incidence of malnutrition (as measured by the weight-to-age ratio) in a sample of 45 countries reveals the presence of three significant determinant. These are per capita income, extent of female literacy, and the coverage of the immunisation programmes. Lowering of per capita incomes combined with a contraction in public sector spending is likely to thereby have adverse consequences on children's' nutrition. Child malnutrition is already a serious problem in Pakistan where over 40% of the children are malnourished. The contraction in preventive health services such as immunisation programmes may mean that the incidence of diseases amongst the children will rise. One of the findings in this report has been that internationally, infant mortality rates increase both as a result of a decrease in preventive health services as well as a decline in per capita income. The danger of this happening in Pakistan is heightened by the lack of commitment, currently apparent, to preserve Social Action Programme expenditures.

Simultaneously, cuts in education expenditure could lead to higher school dropout rates as a decline in per capita income reduces the demand for schooling. This may result in a higher incidence of child labour in the country.

On the whole, in line with international experience economic crisis and structural adjustment is likely to lower per capita income and increase poverty in the country. Unemployment rate may rise especially affecting the educated segments of the labour force. A fall in the real wage rate may also be witnessed. Women may suffer disproportionately due to a decline in income levels, tighter labour market conditions and cutbacks in public spending on social services. There may also be a rise in the incidence of child malnutrition and child labour in the country.

Chapter Five

IMPLICATIONS FOR PAKISTAN: WHAT CAN BE DONE?

International experience reveals that economic crisis and structural adjustment affects the vulnerable groups (the poor, women, children, disabled etc) a the most. It is therefore, essential to make a special effort for the safeguard of these segments of society. Many countries like **Bolivia** and **Chile** had social security measures or special funds set in place to combat the increase in poverty and unemployment caused by economic crisis. **Bolivia**'s Emergency Social Fund (ESF) aimed at providing temporary employment in small-scale labour-intensive projects initiated by the local government and non-governmental agencies. It was successful in supplementing the incomes of particularly the prime age married male head of households. The ESF was donor funded.

Tunisia improved targetting by diverting the food subsidy to items which due to inferior packaging or ingredients are perceived to be inferior but still possess the same nutritional value as normal food stuff. Since the consumption of such items were only by the poor, the subsidy, by and large, benefited only the poor. In **Mexico** a donor funded core program "Program for Essential Services (PES)" which among other objectives, provided free textbooks, immunization and nutritional interventions for children and mothers is another example of an effective safety net.

In **Bangladesh**, the ration program was effectively restricted to those in need by tying distribution to attendance in government primary schools. This also raised the primary school enrollment rates. Similarly, food stamp targetting was improved in **Honduras** and **Jamaica** by linking stamp delivery to attendance at health crisis.

India operates a massive nationwide public works program which geographically targets the backward districts. It operates mainly in the agricultural off-season, and the wage rate corresponds to the minimum wage. The program soughts to create minor irrigation infrastructure on small farms. The Grameen Bank in **Bangladesh** has been able to extent credit to poor people, including women, because it eliminates the requirement of collateral, advances small loans and avoided delays.

The above review covers examples of social safety nets which on one hand enhance the income generating opportunities for the poor while on the other hand their income generating capabilities are enhanced. The ESF of **Bolivia** and the Grameen Bank of **Bangladesh** enhance the income generating opportunities particularly in the urban areas, while the public works program (PWP) of **India** does the same in the rural areas. The prime beneficiaries of ESF and the PWP are males while Grameen Bank also covers females.

Income generating capabilities are enhanced by improving the nutritional, educational and health level of the masses. The food subsidy in **Tunisia**, and the food stamps in **Honduras**, **Jamaica** and **Bangladesh** achieve these objectives and so does the PES of **Mexico**.

The social safety nets in existence in Pakistan are inadequate and ill-equipped to be effective in a crisis situation. Major social safety nets include cash transfers, income generation projects and in-kind transfers. Pakistan's cash transfers include the Zakat and Ushr system and Bait ul Maal scheme. However, these schemes provide only limited coverage and their targeting efficiency is low. At the same time there are transaction costs (of filling in forms, applications being reviewed by committees etc.) Also, their effectiveness in terms of providing a safeguard against poverty is limited because of the low amount transferred.

There are no major effective income generation schemes like the public works schemes in Pakistan. Such programs have a major advantage: they can be self-selecting, i.e. anyone who wants to work can do so for the given wage. The closer this is set to the minimum wage, the better the chances of the poorest of the poor being able to benefit. Also, since urban poverty is also on the rise, it might be worthwhile to extend the ambit of the scheme to cover road construction, urban improvement, garbage disposal and beautification of towns and cities.

Micro-credit of the Grameen Bank type is also a program which can potentially be very effective in Pakistan. Covering both females (who will be essentially excluded from the public works programs) and males, credit for self-employment can be particularly effective in promoting small, home-based businesses in the urban areas.

With the threat of rising food prices, institution of food subsidy may be considered. However, to ensure better targeting, subsidy may be for food items which is largely consumed by the poorer sections of the population. Examples include bajra (used in place of wheat), irri-6 rice (inferior quality rice) and Gur (substitute for sugar). Other safety nets which can safeguard vulnerable groups include food stamps, (distributed at public schools and health clinics) and

free immunization and nutritional interventions for children and women at public health centres. The above proposals are based on programs which have been successful in partially insulating the vulnerable segments of population in other countries. If carefully designed and implemented, these have the potential of doing the same in Pakistan.

REFERENCES

- Akhtar, Sajjad, Hafiz A. Pasha, et al (1999) “Determinants of Poverty in Pakistan,” *SPDC Research Report*.
- Alderman, Harold. (1990) “Nutritional Status in Ghana and its Determinants”, Social Dimensions of Adjustment in Sub-Saharan Africa, *SDA Working Paper No.3*, Policy Analysis, Washington D.C.: World Bank.
- Beneria, Lourdes. (1992) “The Mexican debt Crisis: restructuring the Economy and the Household”, in Feldman and Shelley (eds.), *Unequal Burden: Economic crises, persistent poverty and women’s work*, Boulder and Westview Press, 1992, pp.83-104.
- Berfield, Susan and Jose Manuel Tesoro (1998). “People Power”, in *Asiaweek*, May 29 1998.
- Boateng, E.Oti, Kodwo Ewusi, Ravi Kanbur and Andrew McKay. (1990) “A Poverty Profile for Ghana 1987-88”, Social Dimensions of Adjustment in Sub-Saharan Africa, *SDA Working Paper No.5*, Policy Analysis, Washington D.C.: World Bank.
- Figueroa, Leonel.(1988) “ Economic Adjustment and Development in Peru: Towards an Alternative Policy”, in Cornia, Giovanni Andrea. et al (Ed.), *Adjustment with a Human Face*, Volume II, Country Case Studies, Oxford: Clarendon Press.
- Fox, Louise M. and Samuel A.Morley. (1991) “Who Paid the Bill? Adjustment and Poverty in Brazil, 1980-95”, Policy, Research, and External Affairs Working Paper, *WPS 648*, Prepared as a background paper for the World Development Report, World Bank.
- Fox, Louise M, Edward Amadeo and Jose Marcio Camargo (1994), “Brazil”, Chapter 4; 143- 169 in Fox, Horton, Susan, Ravi Kanbur and Dipak Mazumdar (ed.), *Labour Markets in an Era of Adjustment*, Volume 2, Case Studies, Economic Development Institute of The World Bank, EDI Development Studies, Washington: World Bank.
- Ghaus-Pasha, Aisha, Hafiz A. Pasha, Abu Nasar (1999), “Gender Inequality in Developing Countries: A Case Study of Pakistan,” *SPDC Staff Paper*.

- Gleuwe, Paul. and Dennis de Tray (1989). “The Poor in Latin America during Adjustment: A Case Study of Peru”, *Living Standards Measurement Study Working Paper No. 56*, Washington D.C.: World Bank.
- Grindling T.H., and Albert Berry (1994), “Costa Rica”, Chapter 6; pp.217-259 in Horton, Susan, Ravi Kanbur and Dipak Mazumdar (ed.), *Labour Markets in an Era of Adjustment*, Volume 2, Case Studies, Economic Development Institute of The World Bank, EDI Development Studies, Washington: World Bank.
- Horton, Susan, Ravi Kanbur and Dipak Mazumdar. (1991) “Labour Markets in an Era of Adjustment: An Overview”, Policy, Research, and External Affairs Working Paper, *WPS 694*, World Bank.
- Horton, Susan. (1994). “Bolivia”, Chapter 3; pp.99-143 in Horton, Susan, Ravi Kanbur and Dipak Mazumdar (ed.), *Labour Markets in an Era of Adjustment*, Volume 2, Case Studies, Economic Development Institute of The World Bank, EDI Development Studies, Washington: World Bank.
- Karshenas, M. (1994) “Macroeconomic Policies, Structural Change and Employment in the Middle East and North Africa”, Paper prepared under the ILO/UNDP project *Economic Policy and Employment*, International Labour Organisation.
- Macedo, Roberto. (1988), “Brazilian Children and the Economic Crisis: The Evidence from the State of Sao Paulo”, in Cornia, Giovanni Andrea. et al (Ed.), *Adjustment with a Human Face*, Volume II, Country Case Studies, Oxford: Clarendon Press.
- Mazumdar, Dipak. (1991) “Malaysian Labor Markets Under Structural Adjustment”, Policy, Research, and External Affairs Working Paper, *WPS 573*, World Bank.
- Muqtada, M. And Priya Basu. (1994) “Macroeconomic Policies, Growth and Employment Expansion: The Experience of South Asia”, Paper prepared under the ILO/UNDP project *Economic Policy and Employment*, International Labour Organisation.
- Newman, J., S. Jorgensen and M. Pradhan (1991), “How did Workers Benefit from Bolivia’s Emergency Social Fund”, *The World Bank Economic Review*, Vol.5, No.2, pp.367-393, World Bank: Washington D.C.

- Pasha Hafiz, Aisha Ghaus-Pasha, Fauzia Malik (1999), “Educated Unemployment: Measurement and Determinants,” *SPDC Research Note*.
- Raczynski, Dagmar. (1988), “Social Policy, Poverty and Vulnerable Groups: Children in Chile”, in Cornia, Giovanni Andrea. et al (Ed.), *Adjustment with a Human Face*, Volume II, Country Case Studies, Oxford: Clarendon Press.
- Riveros, Luis A. (1990) “Chile’s labour Markets in an Era of Adjustment”, Policy, Research, and External Affairs Working Paper, *WPS 404*, World Bank.
- Riveros, Luis A. and Carlos E. Sanchez (1994), “Argentina”, Chapter 2; pp.61-99 in Horton, Susan, Ravi Kanbur and Dipak Mazumdar (ed.), “*Labour Markets in an Era of Adjustment*”, Volume 2, Case Studies, Economic Development Institute of The World Bank, EDI Development Studies, Washington: World Bank.
- Riveros, Luis A. (1994). “Chile”, Chapter 5; pp169-217 in Horton, Susan, Ravi Kanbur and Dipak Mazumdar (ed.), *Labour Markets in an Era of Adjustment*, Volume 2, Case Studies, Economic Development Institute of The World Bank, EDI Development Studies, Washington: World Bank.
- *SPDC*, Social Development in Pakistan, Annual Review 1999.
- UNICEF, Accra. (1988) “Adjustment Policies and Programmes to protect Children and Other Vulnerable Groups in Ghana”, in Cornia, Giovanni Andrea. et al (Ed.), *Adjustment with a Human Face*, Volume II, Country Case Studies, Oxford: Clarendon Press.